

August 11, 1997

“A”

Subject: Charge-offs of Losses

Opinion no.: 97-14 (**Redacted**)

Dear “A”:

Thank you for your phone call of July 24 requesting an opinion on two specific areas of charge-offs. Below I have paraphrased your questions followed by our response.

Question #1:

Can the board of directors delegate authority to approve the charge-off of credit union losses? What we are talking about is a procedure where the collection officer approves a list of loans for charge-off, the list is charged off against the allowance for loan loss account or regular reserves, and the charge-off list is sent to the next regular monthly board meeting for reporting.

Answer #1:

No, charge-off of credit union losses cannot be delegated until after January 1, 1998.

RCW 31.12.255 (12) requires the board of directors to approve the charge-off of credit union losses. This provision remains effective until January 1, 1998.

January 1, 1998 is the effective date of the credit union modernization act passed by the 1997 session of the state legislature (Chapter 397, Laws of 1997). Section 17 of this Chapter amends RCW 31.12.255 by allowing certain board powers or duties, as listed in subsection 2 of section 17, to be delegated, with appropriate

reporting to the board. One of those duties that can be delegated, with appropriate reporting to the board, is the charge-off of credit union losses under RCW 31.12.255 (2) (g).

Question #2:

Does the board of directors have to approve charge-offs of operational losses?

Answer #2:

Yes, the board of directors is required to approve any charge-off of credit union losses, whether loan or operational, until January 1, 1998 [RCW 31.12.255 (12)]. After January 1, 1998, approval of charge-offs can be delegated. (See Answer #1 above for further discussion).

However, if operational losses are being expensed rather than charged off, the board of directors does not need to approve the expense. The credit union is required to be in compliance with adequate policies and procedures, including appropriate internal controls.

If you have further questions on this issue, please give me a call.

Sincerely,

Linda K. Jekel
Program Manager